

ADDISON FIRE DEPARTMENT AND
EMERGENCY MEDICAL SERVICE

AUDIT REPORT

MARCH 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name ADDISON FIRE DEPARTMENT AND		County LENAWEE	
Fiscal Year End 3-31-2006		Opinion Date 7-17-2006		Date Audit Report Submitted to State 7-19-2006			

EMERGENCY MEDICAL SERVICE

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, P.C.			Telephone Number (517) 849-2410	
Street Address 479 E CHICAGO ST PO BOX 215			City JONESVILLE	State MI
			Zip 49250	
Authorizing CPA Signature <i>Gregory J. Bailey</i>		Printed Name GREGORY J. BAILEY		License Number 1101022915

CONTENTS

INDEPENDENT AUDITOR'S REPORT1

MANAGEMENT'S DISCUSSION AND ANALYSIS2 - 5

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

 Statement of Net Assets6

 Statement of Activities.....7

Fund Financial Statements

 Balance Sheet - Governmental Funds8

 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to
 Net Assets of Governmental Activities on the Statement of Net Assets9

 Statement of Revenue, Expenditures Changes in
 Fund Balances - Governmental Funds10 - 11

 Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities.....12

NOTES TO THE FINANCIAL STATEMENTS13 - 19

REQUIRED SUPPLEMENTARY INFORMATION

 Budgetary Comparison Schedule - General Fund.....20 - 21

Bailey, Hodshire
& Company, P.C.
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INDEPENDENT AUDITOR'S REPORT

Addison Fire Department and Emergency Medical Service
Addison, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Addison Fire Department and Emergency Medical Service (the "Department") as of and for the year ended March 31, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Addison Fire Department and Emergency Medical Service as of March 31, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary information comparison information on pages 2-5 and 20-21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan

July 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

ADDISON FIRE DEPARTMENT
AND EMERGENCY MEDICAL SERVICE

Management's Discussion and Analysis
March 31, 2006

This section of Addison Fire Department and Emergency Medical Service's financial report presents our discussion and analysis of the Department's financial performance during the fiscal year ended March 31, 2006. It is best read in conjunction with the Department's financial statements that follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Department financially as a whole. The *government-wide financial statements* provide information about the activities of the entire Department, presenting both an aggregate view of the Department's finances and a longer-term view of those finances. The *fund financial statements* provide the next level of detail by telling how services were financed in the short-term as well as what remains for future spending.

Reporting the Department as a Whole

One of the most important questions asked about the Department is "As a whole, what is the Department's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Department's financial statements, report information on the Department as a whole and its activities in a way that helps you answer this question. We prepared these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report the Department's *net assets* - - the difference between assets and liabilities, as reported in the Statement of Net Assets - - as one way to measure the Department's financial health, or *financial position*. Over time, increases or decreases in the Department's net assets - - as reported in the Statement of Activities - - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the Department's operating results. However, the Department's goal is to provide services to the public, not to generate profits as commercial entities do. One must consider many other nonfinancial factors to assess the overall health of the Department.

Reporting the Department's Most Significant Funds

The Department's fund financial statements provide detailed information about the Department's most significant funds - - not the Department as a whole. Some funds are required to be established by State law and by bond covenants. However, the Department may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Department's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial

ADDISON FIRE DEPARTMENT
AND EMERGENCY MEDICAL SERVICE

Management's Discussion and Analysis
March 31, 2006

resources that can be spent in the near future to finance the Department's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The Department as a Whole

The following table provides a summary of the Department's net assets as of the end of the current and prior year.

TABLE 1 - NET ASSETS

	<u>2005</u>	<u>2006</u>
Assets		
Current Assets	\$ 526,975	\$ 405,680
Noncurrent Assets	<u>1,849,360</u>	<u>1,875,807</u>
Total Assets	<u>\$ 2,376,335</u>	<u>\$ 2,281,487</u>
Liabilities		
Current Liabilities	\$ 68,462	\$ 73,593
Noncurrent Liabilities	<u>113,206</u>	<u>67,992</u>
Total Liabilities	<u>\$ 181,668</u>	<u>\$ 141,585</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	\$ 1,698,927	\$ 1,769,982
Restricted	0	0
Unrestricted	<u>495,740</u>	<u>369,920</u>
Total Net Assets	<u>\$ 2,194,667</u>	<u>\$ 2,139,902</u>
Total Liabilities and Net Assets	<u>\$ 2,376,335</u>	<u>\$ 2,281,487</u>

The Department's net assets were \$2,139,902 at March 31, 2006, a decrease of 2.5% from the prior year. Invested in capital assets, net of related debt totaling \$1,769,982 compares the original cost, less depreciation, of the Department's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets (if any) are reported separately to show legal constraints from debt covenants or enabling legislation that limit the Department's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$369,920) was unrestricted. The \$369,920 represents the *accumulated* results of all past year's operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of operations for the Department as a whole for the current and prior year are summarized in the following table:

TABLE 2 - CHANGES IN NET ASSETS

	<u>2005</u>	<u>2006</u>
Program Revenue		
Charges for Services	\$ 647,246	\$ 613,854
Operating Grants and Contributions	0	1,945

ADDISON FIRE DEPARTMENT
AND EMERGENCY MEDICAL SERVICE

Management's Discussion and Analysis
March 31, 2006

	<u>2005</u>	<u>2006</u>
Capital Grants and Contributions	280,351	0
General Revenue		
Unrestricted Investment Earnings	1,971	2,808
Other	<u>11,272</u>	<u>15,473</u>
Total Revenue	<u>\$ 940,840</u>	<u>\$ 634,080</u>
Expenses		
Public Safety - Fire & Ambulance	\$ 684,682	\$ 684,519
Interest on Long-Term Debt	<u>5,762</u>	<u>4,326</u>
Total Expenses	<u>\$ 690,444</u>	<u>\$ 688,845</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 250,396</u>	<u>\$ (54,765)</u>

The cost of all our governmental activities this year was \$688,845. These activities were mostly funded by the municipalities who benefited from the programs (\$613,854). We paid for the remaining portion of our governmental activities with interest earnings, and other miscellaneous revenue, and accumulated surplus from prior years.

The Department experienced a decrease in net assets of (\$54,765) for the current year. The prior year's increase in net assets was mainly due to the construction of a new fire station which was capitalized as an asset on the government-wide financial statements. The change in net assets differs from the change in fund balance, and a reconciliation appears on page 12 of the financial statements.

The Department's Funds

As we noted earlier, the Department uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Department is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Department's overall financial health. At March 31, 2006, the governmental funds reported a fund balance of \$378,194, which is a decrease of \$124,986 from last year. The primary reason for the decrease was the expenditures for purchasing and equipping a new ambulance (\$138,765), which are recorded as expenditures in the fund financial statements.

General Fund Budgetary Highlights

At the end of the year, the Department amends its budget as it attempts to deal with changes in revenue and expenditures. State law required that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Department's original and final budget amounts compared with amounts actually received and paid is provided in the required supplemental information on pages 20-21 of the financial statements

Capital Asset and Debt Administration

At March 31, 2006, the Department had \$1,875,807 invested in capital assets that include land, buildings, vehicles, and equipment. This amounts represents a net increase (including additions and disposals) of \$26,447.

ADDISON FIRE DEPARTMENT
AND EMERGENCY MEDICAL SERVICE

Management's Discussion and Analysis
March 31, 2006

Capital Asset and Debt Administration (continued)

Capital assets at year-end were as follows:

	<u>2005</u>	<u>2006</u>
Land	\$ 22,450	\$ 22,450
Buildings and Improvements	733,267	733,267
Furniture and Equipment	310,494	310,494
Vehicles	1,382,848	1,496,613
Less: Accumulated Depreciation	<u>(599,699)</u>	<u>(687,017)</u>
Total Capital Assets, net of depreciation	<u>\$ 1,849,360</u>	<u>\$ 1,875,807</u>

At March 31, 2006, the Department had an outstanding note payable of \$105,825 from the purchase of a fire truck in the 2003-04 fiscal year, and compensated absences payable of \$8,274.

Factors Bearing on the Department's Future

The cost of operations and manning the stations of the Department will be an ongoing expense and will always be a concern. The help we were looking for from the FEMA grant will probably not become reality, so we are going to be faced with dealing with this within our own means. Over the next year, we would like to seek ways to fund and finish the work of Station #3 on Round Lake Highway, the cost of which will run approximately \$40,000.

The purchase of the 2006 ambulance is complete, and the new ambulance is now in service. As far as any major capital expense over the next three to five years, we can see the need to replace the 1998 ambulance and possibly the 2000 ambulance. Both of these will be over ten years of service use by then, and replacement cost should run in the area of \$145,000 each.

The large fire trucks should be adequate for approximately the next six years, at which time we will need to look into replacing or refurbishing the 1992 Engine/Tanker #12 (at its 20-year mark it will lose its certification as a Class A pumper). The next consideration for purchase may need to be replacement of the 1971 and 1984 grass rigs at an approximate cost of \$65,000 each.

Contacting the Department's Management

This report is designed to give an overview of the financial conditions of the Addison Fire Department and Emergency Medical Service. If you have any questions about this report or need further information, please contact the Fire Chief at 319 E. Main Street, Addison, MI 49220, telephone (517) 547-6776 or (517) 937-7940.

BASIC FINANCIAL STATEMENTS

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
STATEMENT OF NET ASSETS
MARCH 31, 2006

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 351,703
Accounts Receivable:	
Municipal Ambulance Agreements	26,557
Ambulance Fees	<u>27,420</u>
Total Current Assets	<u>\$ 405,680</u>

Noncurrent Assets

Capital Assets:

Land	\$ 22,450
Buildings and Improvements	733,267
Furniture and Equipment	310,494
Vehicles	1,496,613
Less: Accumulated Depreciation	<u>(687,017)</u>

Total Noncurrent Assets \$ 1,875,807

Total Assets \$ 2,281,487

LIABILITIES

Current Liabilities

Accounts Payable	\$ 5,413
Accrued Payroll	13,058
Accrued Payroll Taxes	875
Deferred Revenue	8,140
Current Portion of Long-Term Debt	<u>46,107</u>

Total Current Liabilities \$ 73,593

Noncurrent Liabilities

Notes Payable less Current Portion	\$ 59,718
Compensated Absences	<u>8,274</u>

Total Noncurrent Liabilities \$ 67,992

Total Liabilities \$ 141,585

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 1,769,982
Unrestricted	<u>369,920</u>

Total Net Assets \$ 2,139,902

Total Liabilities and Net Assets \$ 2,281,487

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED MARCH 31, 2006

	Program Revenues						
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue		
Governmental Activities							
Public Safety-Fire & Ambulance	\$ 684,519	\$ 613,854	\$ 1,945	\$ 0	\$ (68,720)		
Interest on Long-Term Debt	<u>4,326</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,326)</u>		
Total Governmental Activities	\$ <u>688,845</u>	\$ <u>613,854</u>	\$ <u>1,945</u>	\$ <u>0</u>	\$ <u>(73,046)</u>		
General Revenues:							
Unrestricted Investment Earnings					\$ 2,808		
Other					<u>15,473</u>		
Total General Revenues					\$ <u>18,281</u>		
CHANGE IN NET ASSETS					\$ (54,765)		
NET ASSETS - Beginning					<u>2,194,667</u>		
NET ASSETS - Ending					<u>\$ 2,139,902</u>		

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 BALANCE SHEET - GOVERNMENTAL FUNDS
 MARCH 31, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 351,703	\$ 0	\$ 351,703
Accounts Receivable:			
Municipal Ambulance Agreements	26,557	0	26,557
Ambulance Fees	<u>27,420</u>	<u>0</u>	<u>27,420</u>
Total Assets	<u>\$ 405,680</u>	<u>\$ 0</u>	<u>\$ 405,680</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 5,413	\$ 0	\$ 5,413
Accrued Payroll	13,058	0	13,058
Accrued Payroll Taxes	875	0	875
Deferred Revenue	<u>8,140</u>	<u>0</u>	<u>8,140</u>
Total Liabilities	<u>\$ 27,486</u>	<u>\$ 0</u>	<u>\$ 27,486</u>
Fund Balances			
Unreserved and Undesignated	<u>\$ 378,194</u>	<u>\$ 0</u>	<u>\$ 378,194</u>
Total Liabilities and Fund Balances	<u>\$ 405,680</u>	<u>\$ 0</u>	<u>\$ 405,680</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
Reconciliation of Fund Balance on the Balance Sheet for Governmental Funds to
Net Assets of Governmental Activities on the Statement of Net Assets
March 31, 2006

Fund Balances - Total Governmental Funds	\$ 378,194
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital Assets	2,562,824
Deduct: Accumulated Depreciation	(687,017)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: Notes payable	(105,825)
Deduct: Compensated Absences	<u>(8,274)</u>
Net Assets - Governmental Activities	<u>\$ 2,139,902</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED MARCH 31, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUE			
Fire:			
Municipal Fire Agreements:			
Village of Addison	\$ 20,350	\$ 0	\$ 20,350
Township of Rollin	65,120	0	65,120
Township of Wheatland	28,490	0	28,490
Township of Woodstock	93,610	0	93,610
Village of Cement City	3,500	0	3,500
Interest	451	0	451
Miscellaneous	7,886	0	7,886
Donations	<u>1,200</u>	<u>0</u>	<u>1,200</u>
Total Fire Revenue	<u>\$ 220,607</u>	<u>\$ 0</u>	<u>\$ 220,607</u>
Ambulance:			
Municipal Ambulance Agreements	\$ 257,436	\$ 0	\$ 257,436
Ambulance Fees	145,348	0	145,348
Interest	2,357	0	2,357
Miscellaneous	7,587	0	7,587
Donations	<u>745</u>	<u>0</u>	<u>745</u>
Total Ambulance Revenue	<u>\$ 413,473</u>	<u>\$ 0</u>	<u>\$ 413,473</u>
Total Revenue	<u>\$ 634,080</u>	<u>\$ 0</u>	<u>\$ 634,080</u>
EXPENDITURES			
Fire:			
Wages	\$ 72,000	\$ 0	\$ 72,000
Payroll taxes	4,500	0	4,500
Retirement	3,791	0	3,791
Contract labor	1,711	0	1,711
Operating supplies	1,978	0	1,978
Office supplies	1,508	0	1,508
Vehicle expense	4,954	0	4,954
Rent and utilities	17,632	0	17,632
Equipment maintenance	8,868	0	8,868
Insurance	24,208	0	24,208
Minor equipment	2,286	0	2,286
Training	1,490	0	1,490
Professional fees	750	0	750
Uniforms	296	0	296
Miscellaneous	2,189	0	2,189
Buildings	<u>410</u>	<u>0</u>	<u>410</u>
Total fire expenditures	<u>\$ 148,571</u>	<u>\$ 0</u>	<u>\$ 148,571</u>

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006
(continued)

	General Fund	Other Governmental Funds	Total Governmental Funds
Ambulance:			
Wages	\$ 304,019	\$ 0	\$ 304,019
Payroll taxes	24,171	0	24,171
Retirement	9,249	0	9,249
Contract labor	6,844	0	6,844
Operating supplies	7,343	0	7,343
Office supplies	1,621	0	1,621
Vehicle expense	11,053	0	11,053
Billing service	5,334	0	5,334
Rent and utilities	14,415	0	14,415
Equipment maintenance	3,668	0	3,668
Insurance	28,511	0	28,511
Major equipment	138,765	0	138,765
Minor equipment	2,258	0	2,258
Training	900	0	900
Professional fees	750	0	750
Uniforms	647	0	647
Miscellaneous	1,903	0	1,903
Buildings	110	0	110
Total ambulance expenditures	<u>\$ 561,561</u>	<u>\$ 0</u>	<u>\$ 561,561</u>
Total expenditures	<u>\$ 710,132</u>	<u>\$ 0</u>	<u>\$ 710,132</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (76,052)</u>	<u>\$ 0</u>	<u>\$ (76,052)</u>
OTHER FINANCING SOURCES (USES) Payments on Fire Truck Loan	<u>\$ (48,934)</u>	<u>\$ 0</u>	<u>\$ (48,934)</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (124,986)</u>	<u>\$ 0</u>	<u>\$ (124,986)</u>
FUND BALANCES - APRIL 1, 2005	<u>503,180</u>	<u>0</u>	<u>503,180</u>
FUND BALANCES - MARCH 31, 2006	<u><u>\$ 378,194</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 378,194</u></u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund
Balance of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2006

Net Changes in Fund Balance - Total Governmental Funds \$ (124,986)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: Capital Outlay 138,765

Deduct: Depreciation Expense (112,318)

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities. 44,608

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: Increase in accrual for compensated absences (834)

Change in Net Assets - Governmental Activities \$ (54,765)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Addison Fire Department and Emergency Medical Service was formed by municipalities in the Addison, Michigan area to provide fire protection and ambulance services. It is governed by a board made up of representatives from each of the municipalities.

The accounting policies of Addison Fire Department and Emergency Medical Service conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Department (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of significant accounting policies used by Addison Fire Department and Emergency Medical Service:

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Addison Fire Department and Emergency Medical Service consists of all funds, departments, boards and agencies that are not legally separate from the Department.

Component units are legally separate organizations for which the Department is financially accountable. Component units may also include organizations that are fiscally dependent on the Department in that the Department approves their budget, the issuance of their debt, or the levying of taxes. The Department has no component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Department as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Department's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements

Government-Wide and Fund Financial Statements (continued)

of a particular program. Unrestricted investment income, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Department.

Fund Financial Statements - Fund financial statements report detailed information about the Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Municipal ambulance agreements are recognized as revenue in the year for which the related property taxes are levied by the participating townships. Municipal fire agreements and ambulance fees are recorded as revenue when they are invoiced. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, municipal ambulance and fire agreements, ambulance fees, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Financial Statement Presentation

The Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Department reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Department maintains a capitalization threshold of \$2,500. The Department

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	50 years
Furniture & Equipment	5 - 15 years
Vehicles	10 - 25 years

Compensated Absences - It is the Department's policy to permit management employees to accumulate earned but unused vacation and sick pay benefits. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation, retirement, or death.

Long-Term Obligations - In the government-wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Department at the line-item level. Any budgetary modifications may only be made by resolution of the Department. All annual appropriations lapse at fiscal year end.

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes the Department to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENT - (continued)

political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Department's investment policy makes no further limitation on investments. As of March 31, 2006, the Department's deposits are in accordance with statutory authority.

Deposits

Following are the components of the Fire Department's bank deposits at March 31, 2006:

Checking Account	\$ 12,608
Savings Account	<u>339,095</u>
	<u>\$ 351,703</u>

Custodial credit risk of deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Department does not have a deposit policy for custodial credit risk. At March 31, 2006, the carrying amount of the Department's bank deposits was \$351,703 and the bank's balance was \$353,918. Of the total bank balance, \$105,155 was covered by federal depository insurance and \$248,763 was uninsured. The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

There were no investments held during the year.

NOTE 4 - RECEIVABLES

Receivables at March 31, 2006, consist of municipal ambulance agreements and ambulance fees. Municipal ambulance agreements are considered collectible in full due to the collectibility of the related property taxes. Ambulance fees receivable are shown as net of estimated uncollectible amounts.

A summary of the principal items of receivables follows:

Municipal Ambulance Agreements	\$ 26,557
Ambulance Fees	<u>27,420</u>
	<u>\$ 53,977</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 22,450	\$ 0	\$ 0	\$ 22,450
Total Capital Assets not being Depreciated	\$ 22,450	\$ 0	\$ 0	\$ 22,450

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2006

NOTE 5 - CAPITAL ASSETS - (continued)

Capital assets being depreciated				
Buildings & Improvements	\$ 733,267	\$ 0	\$ 0	\$ 733,267
Furniture & Equipment	310,494	0	0	310,494
Vehicles	<u>1,382,848</u>	<u>138,765</u>	<u>(25,000)</u>	<u>1,496,613</u>
Subtotal	<u>\$ 2,426,609</u>	<u>\$ 138,765</u>	<u>\$ (25,000)</u>	<u>\$ 2,540,374</u>
Less accumulated depreciation for				
Buildings & Improvements	\$ (14,665)	\$ (14,665)	\$ 0	\$ (29,330)
Furniture & Equipment	(496,570)	(63,632)	0	(560,202)
Vehicles	<u>(88,464)</u>	<u>(34,021)</u>	<u>25,000</u>	<u>(97,485)</u>
Subtotal	<u>\$ (599,699)</u>	<u>\$ (112,318)</u>	<u>\$ 25,000</u>	<u>\$ (687,017)</u>
Total capital assets being depreciated, net	<u>\$ 1,826,910</u>	<u>\$ 26,447</u>	<u>\$ 0</u>	<u>\$ 1,853,357</u>
Total capital assets, net	<u>\$ 1,849,360</u>	<u>\$ 26,447</u>	<u>\$ 0</u>	<u>\$ 1,875,807</u>

NOTE 6 - LONG-TERM DEBT

The Department purchased a 2003 Pierce Fire Truck on June 27, 2003 for \$370,420. The truck was partially financed through \$225,000 note with United Bank & Trust. The note requires quarterly payments of \$12,233.50 including interest at 3.0% through July 1, 2008. The fire truck serves as collateral for the loan.

The following is a summary of changes in long-term debt for the year ended March 31, 2006:

Description and purpose	Balance March 31, 2005	Issued	Retired	Balance March 31, 2006	Due Within One Year
Governmental Activities					
Compensated Absences	\$ 7,440	\$ 834	\$ 0	\$ 8,274	\$ 0
Note payable	<u>150,433</u>	<u>0</u>	<u>44,608</u>	<u>105,825</u>	<u>46,107</u>
	<u>\$ 157,873</u>	<u>\$ 834</u>	<u>\$ 44,608</u>	<u>\$ 114,099</u>	<u>\$ 46,107</u>

The amounts needed to retire long-term debt at March 31, 2006, including \$4,263 interest, are as follows:

Year ended March 31,	2007	Note Payable
	2008	\$ 48,934
	2009	48,934
	<u>Total</u>	<u>12,219</u>
		<u>\$ 110,087</u>

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 7 - MUNICIPAL FIRE AND AMBULANCE AGREEMENTS

Addison Fire Department and Emergency Medical Service provides fire service and ambulance service to five local municipalities. The fire service agreement calls for cost sharing to be billed quarterly, based on a percentage of annual budgeted expenditures. The percentage is determined by the average number of fire alarms within each municipalities during the previous three years. The percentages used for the 2005-06 fiscal year were as follows:

Woodstock Township	46%
Rollin Township	32%
Wheatland Township	14%
Village of Addison	10% (minimum)
Village of Cement City	\$3,500 flat rate

For ambulance services, a millage of 1.0 mill (subject to Headlee rollback limitations) is levied in each of the three townships, voted specifically for provision of ambulance services by the Addison Fire Department and Emergency Medical Service. This revenue is recorded as Service Agreement Revenue in an amount equal to the total taxes levied, which was \$276,110 for tax year 2004. The Fire Department also receives a portion of a .25 mill ambulance levy in Hillsdale County, allocated by the Hillsdale County Commissioners (\$13,350 for the year).

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Plan Description

The Fire Department participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Department of MERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the MERS, 447 N. Canal Road, Lansing, Michigan, 48917, or by calling (800) 767-6377.

Funding Policy

The Department is required to contribute at an actuarially determined rate designed to accumulate sufficient assets to pay benefits when due. The current requirement is 10.58% of covered wages. The contribution requirements of the Department are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by MERS. The contribution requirements of plan members, if any, are established and may be amended by the Department.

Annual Pension Cost

For the year ended March 31, 2006, the Fire Department's pension cost was \$14,266. The required contribution was determined as part of a December 31, 2004 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases based on an age-related scale to reflect merit, longevity and promotions. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Fire Department's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2006

NOTE 8 - DEFINED BENEFIT PENSION PLAN (continued)

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
3/31/04	\$ 9,351	100%	\$ 0
3/31/05	15,479	100%	0
3/31/06	14,266	100%	0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) - Normal Cost</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
9/1/03	\$ 0	\$ 18,702	\$ (18,702)	0%	\$ 104,000	18%
12/31/04	13,272	14,584	(1,312)	91%	119,812	1%
12/31/05	27,843	34,866	(7,023)	80%	128,008	5%

NOTE 9 - RISK MANAGEMENT

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical benefits provided to employees. The Fire Department has purchased commercial insurance for each of these areas as risk. There has been no significant reduction in insurance coverages and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 10 - UNEMPLOYMENT TAXES

The Fire Department is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfiled.

REQUIRED SUPPLEMENTARY INFORMATION

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Amended Budget	Actual	Actual Over (Under) Amended Budget
Beginning of Year Fund Balance	\$ 503,180	\$ 803,180	\$ 503,180	\$ 0
Resources (Inflows)				
Fire:				
Municipal Fire Agreements:				
Village of Addison	20,350	20,350	20,350	0
Township of Rollin	65,120	65,120	65,120	0
Township of Wheatland	28,490	28,490	28,490	0
Township of Woodstock	101,750	101,750	93,610	(8,140)
Village of Cement City	3,500	3,500	3,500	0
Interest	500	500	451	(49)
Miscellaneous	0	0	7,886	7,886
Donations	1,500	1,500	1,200	(300)
Ambulance:				
Municipal Ambulance Agreements	283,250	283,250	257,436	(25,814)
Ambulance Fees	117,500	117,500	145,348	27,848
Interest	2,000	2,000	2,357	357
Miscellaneous	6,500	6,500	7,587	1,087
Donations	0	0	745	745
Bad Debt Recovery	500	500	0	(500)
Amounts Available for Appropriation	<u>\$ 1,134,140</u>	<u>\$ 1,134,140</u>	<u>\$ 1,137,260</u>	<u>\$ 3,120</u>
Charges to Appropriations (Outflows)				
Fire:				
Wages	\$ 72,000	\$ 72,000	\$ 72,000	\$ 0
Payroll Taxes	4,500	4,500	4,500	0
Retirement	4,250	4,250	3,791	(459)
Contract Labor	2,750	2,010	1,711	(299)
Operating Supplies	3,500	2,250	1,978	(272)
Office Supplies	2,500	1,725	1,508	(217)
Vehicle Expense	5,000	5,250	4,954	(296)
Rent and Utilities	16,500	17,750	17,632	(118)
Equipment Maintenance	5,750	9,500	8,868	(632)
Insurance	17,500	24,500	24,208	(292)
Major Equipment	5,250	0	0	0
Minor Equipment	2,500	2,375	2,286	(89)
Training	2,000	1,875	1,490	(385)
Professional Fees	1,000	775	750	(25)
Uniforms	1,000	540	296	(244)
Miscellaneous	2,500	3,200	2,189	(1,011)
Buildings	6,066	2,066	410	(1,656)

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED MARCH 31, 2006

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Actual Over (Under) Amended <u>Budget</u>
Ambulance:				
Wages	\$ 283,500	\$ 312,500	\$ 304,019	\$ (8,481)
Payroll Taxes	25,000	25,000	24,171	(829)
Retirement	9,750	9,775	9,249	(526)
Contract Labor	10,500	10,500	6,844	(3,656)
Operating Supplies	4,250	7,500	7,343	(157)
Office Supplies	3,000	3,000	1,621	(1,379)
Vehicle Expense	4,000	12,000	11,053	(947)
Billing Service	5,000	5,500	5,334	(166)
Rent and Utilities	12,500	14,500	14,415	(85)
Equipment Maintenance	4,500	4,500	3,668	(832)
Insurance	18,000	29,000	28,511	(489)
Major Equipment	7,250	139,000	138,765	(235)
Minor Equipment	1,500	2,300	2,258	(42)
Training	3,000	3,000	900	(2,100)
Professional Fees	1,500	1,500	750	(750)
Uniforms	2,000	2,000	647	(1,353)
Miscellaneous	2,000	2,000	1,903	(97)
Buildings	0	125	110	(15)
Debt Service:				
Fire Truck Loan Payments	<u>48,934</u>	<u>48,934</u>	<u>48,934</u>	<u>(0)</u>
Total Charges to Appropriations	<u>\$ 600,750</u>	<u>\$ 787,200</u>	<u>\$ 759,066</u>	<u>\$ (28,134)</u>
End of Year Fund Balance	<u>\$ 533,390</u>	<u>\$ 346,940</u>	<u>\$ 378,194</u>	<u>\$ 31,254</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET
P.O. BOX 215
JONESVILLE, MI 49250

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July 17, 2006

Addison Fire Department and Emergency Medical Service
Addison, Michigan

In connection with our audit of the Addison Fire Department and Emergency Medical Service for the year ended March 31, 2006, we would like to make the following comments and recommendations:

1. As you know, each of the Townships that you serve levies one (1) mill for the ambulance services which you provide. Based on the records obtained in our prior two audits, Woodstock Township has traditionally distributed this tax levy to you on a monthly basis, beginning in May of the year following the levy. For example, the 2003 tax levy of \$115,431 was paid in monthly installments of \$9,619 from May, 2004 through March, 2005. Given this pattern, we had you record an account receivable at March 31, 2005 equal to the amount of the 2004 tax levy (\$123,865). To date, Woodstock Township has only remitted \$91,794, leaving a balance of \$32,071; however, the Township has indicated that they owe nothing further because they "sent all the money left in the account." I have spoken with the auditor for Woodstock Township, and he agrees with this analysis. An analysis by your bookkeeper also suggests that Woodstock Township made an overpayment on the very first tax levy in 1995. Based on this information, the \$32,071 balance has been written off.
2. Woodstock Township was over-charged \$8,140 during the year on the quarterly payments for the fire department budget. This amount has been recorded as deferred revenue as of March 31, 2006, and should be credited to the Township on a future payment.
3. State law requires that a public hearing be held by the legislative body before passage of the annual budget. We recommend that the required public hearing be held and documented in the minutes at your March meeting each year. Information regarding the hearing should also be included in your public notice prior to the meeting.

If we can be of assistance regarding these recommendations, please contact our office.

Respectfully,

Bailey, Hodshire & Company, P.C.
Bailey, Hodshire & Company, P.C.